Melville Shoe Corporation

Thom McAn
Thom McAn
chess king
MILES

Annual Report 1968

Thom McAn
Take-it-Easy Styles

Thom McAn

Melville Manufacturing

Miles

Chess King

QUALITY SHOES

Meldisco

FOXWOOD
CASUALS

Foxwood

Specialty Merchandising

With the mass market in all fields exploding into a variety of specialty markets created by the demand of America's increasingly affluent and sophisticated consumers for individualized products, Melville moved to capitalize on this trend by emphasizing the concept of specialty merchandising in all of its retailing operations.

Melville's Thom McAn, Miles and Meldisco Divisions further developed their own sharply defined markets as specialty merchandisers in the men's and family, young women's fashion, and family discount fields. Melville further expanded its concept of specialty merchandising during 1968 with the launching of Chess King, Melville's young men's apparel chain, and the acquisition of Foxwood, Inc., a women's sportswear chain.

Exploring and exploiting the unlimited growth potential of the burgeoning new specialty markets will be a major Melville objective in 1969 and the years ahead.

Melville Shoe Corporation Annual Report 1968

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Annual meeting of stockholders will be held at the Executive Offices in New York City on April 8, 1969

To Our Shareholders

Francis C. Rooney, Jr.
President and Chief Executive Officer

For the fifth consecutive year, net earnings of Melville Shoe Corporation and subsidiaries reached a record high, totaling $16,227,503 for 1968, compared with $14,370,223 for 1967, an increase of 12.9 percent. Per-share earnings for the average number of shares outstanding were $2.89 in 1968, compared with $2.54 in 1967. The 10 percent Federal tax surcharge amounted to 18¢ per share.

The all-time high earnings of 1968 were achieved on total net sales of $292,971,938, an increase of 13.2 percent.

The total number of units operated by Melville and its subsidiaries increased to 1,474 as of December 31, 1968 from 1,366 at the end of 1967. The Company added 165 new stores in 1968 and closed 57 as well as modernized and enlarged a number of other stores.

During the year, Melville expanded its operations beyond the shoe business for the first time in the history of the Company. We initiated Chess King, the new teen-age male apparel chain and also acquired, in exchange for Melville stock, Foxwood, Inc. and its subsidiaries. The ladies' sportswear chain of stores called Foxwood Casuals is made up of 16 stores located in the Pittsburgh, Pennsylvania area, Ohio, Indiana and New York State.

Chess King, launched in March at Dedham, Massachusetts, now includes 6 stores with 10-15 planned for this year. The stores, with their distinctive décor and line of merchandise appealing to the 12-20 year age group, have proved to be highly popular with teen-agers who patronize shopping centers in great numbers across the country.

Expansion into the fashion apparel field has given Melville the opportunity to develop clearly defined, special markets through the marketing skills the organization has successfully employed in the shoe field.

We are also further refining our own concept of what is called specialty merchandising—or the exploitation of a market through an exclusive merchandising approach—in both our Thom McAn and Miles Divisions.

Meldisco continues to increase its share of the discount footwear field.

Other important changes during 1968 included the opening of two manufacturing plants, one at Isabela, Puerto Rico and the other at Tifton, Georgia. Also, the General Managers of the Thom McAn, Miles, Meldisco and J. F. McElwain Divisions were named Presidents of their divisions. Kenneth K. Berland, Financial Vice President and Treasurer of the Melville Shoe Corporation, was elected to the Board of Directors of Melville.

On January 28, 1969, Melville signed a preliminary agreement to acquire Consumer Value Stores, a chain of 42 health and beauty aid specialty stores located in New England, and Mark Steven Inc., a health and beauty aid distributor located in Woonsocket, Rhode Island. The combined annual sales of the two companies total approximately $20,000,000. The preliminary agreement calls for an initial payment of 150,000 shares of Melville common stock, with a maximum additional 85,000 shares to be paid over the next three years contingent on the earnings of the two companies. This type of merchandising fits into Melville's expanding pattern of growth through specialty store retailing.

Continuing the growth and momentum of the past five years, we look forward to further progress in 1969.

Francis C. Rooney Jr.

Francis C. Rooney, Jr.
President

February 25, 1969

Ward Melville
Chairman of the Board

Murray M. Rosenberg
Chairman of the Executive Committee

Highlights

	1968	1967	Percent Change
Net Sales	$292,971,938	$258,752,353	+13.2
Earnings before Federal Income Taxes	27,372,503	23,408,223	+16.9
Net Earnings	16,227,503	14,370,223	+12.9
Dividends on Common Stock	6,006,962	4,393,102	+36.7
Net Earnings Per Share of Common Stock	2.89	2.54**	+13.8
Dividends Per Share of Common Stock	1.10	.80**	+37.5
Net Earnings as a Percent of Net Sales	5.54%	5.55%	
Cash	18,011,946	23,864,263	−24.5
Inventories	58,744,980	47,269,022	+24.3
Net Working Capital	55,128,184	51,232,823	+ 7.6
Shareholders' Equity	67,652,265	58,298,100	+16.0
Number of Common Shares, Outstanding*	5,479,205	5,483,276**	− .1
Number of Stores	1,474	1,366	+ 7.9
Number of Employees	10,800	9,400	
Number of Shareholders: approximately 18,000			

*Based on average number of shares outstanding.
**Adjusted to reflect two-for-one stock split on April 10, 1968.

Already well established in specialty merchandising through its successful appeal to the teen-age and young-adult buyers, the Thom McAn Division of Melville continues as the unchallenged sales leader in the retail shoe business.

During the year, the Thom McAn chain opened 60 new family shoe stores and 6 new men's stores, bringing the year-end total—with 41 closings—to 895 stores. Three new stores were opened in the provinces of Ontario and Quebec, Canada, increasing the number of Canadian stores to 5.

Following up such successful promotions as the "Surfing and Sandals," Monkee Boots, and GTO campaigns of recent years, Thom McAn capitalized on the 1968 popularity of the music and dress of India among America's young by giving away native sitars as prizes and selling a shoe model called "Bombay Buckles" in record numbers.

Another highlight of the year was the choice of Thom McAn as the shoe of the U. S. Olympic team and the participation of the Thom McAn organization, in cooperation with the U. S. Junior Chamber of Commerce, in a program to raise funds for our Olympic team in towns and cities across the country.

In putting further emphasis on specialty merchandising, Thom McAn continued its campaign, begun last year, to expand the sales of its women's shoes. Full-page "spectacular" advertisements appealing to younger women were run in leading newspapers, resulting in sharp increases in women's shoe sales.

Upgrading of product lines and store décor was another important phase of the Thom McAn specialty merchandising program. The "Bootmaster" line, selling for up to $20, continued to win wide customer acceptance, while a new emphasis was placed on developing "the elegant look", particularly in downtown men's shoe stores.

To increase its capabilities in supplying the men's market, Thom McAn purchased a 44-acre tract of industrial land in Auburn, Massachusetts as the site of a 400,000 square foot men's distribution center scheduled for completion in early 1970.

Thom McAn...

McAn best-selling shoe in all America
chess king
for PRESIDENT
HEADQUARTERS

Style and Quality for America's Dynamic Young Millions

Miles . . . High Fashion for Young-thinking Women Coast to Coast

During 1968 the Miles Division of Melville further emphasized specialty merchandising as it moved to increase its share of the fashion-minded 18-24 year-old women's market.

In appealing to the younger woman who buys almost 4 pairs of shoes for every 3 bought by the average woman customer, Miles introduced the exclusive specialty store in the mid-price young women's fashion range for the first time. Creating a pleasingly different shopping environment, these 2000-2700 square foot shops feature modern décor, pads for seating rather than chairs, pastel colors and unusual lighting effects.

Developing its "little shop" formula, Miles sends its buyers and merchandise executives to Europe to keep a step ahead of fashion trends. As the result of such efforts, Miles was the first to introduce high fashion imports in volume in its price area. Miles was also first to promote He-She styling on a major scale and first to offer close-fitting boots at popular prices.

Furthering its specialization in the mid-price young women's field, Miles upgraded its footwear, handbag and hosiery lines in price, quality and style. The Miles Division also put added stress on youth and fashion in its expanded window display and advertising programs. The year's advertising campaign, with the theme "Girl-footing U. S. A.", included wider use of newspapers, radio and magazines, and was highlighted by a 4-page section in Glamour Magazine.

In strengthening its national merchandising capabilities, Miles further improved its reporting procedures through the use of optical-font cash register tapes. The establishment of an EDP department is expected to aid in the development of a merchandise replenishment system that will put fashion shipments on a priority basis.

While establishing its identity as a young women's specialty chain, Miles made further progress toward becoming a national chain. During the year, new Miles stores were opened in Providence, Buffalo and Chicago, and leases were signed for stores on the West Coast. During the year, the Miles chain opened 15 stores and closed 12, resulting in 285 stores at year end.

Meldisco...

Promotional selling of family footwear through leased self-service departments—in which as many as 500 pairs of a single footwear item are sold by a department in response to a single newspaper advertisement—is an area of specialty merchandising requiring a unique approach to the footwear business.

Melville is represented in this area of specialty by its Meldisco Division. The fastest growing division in the Company, Meldisco, in the 7 years since its formation, has already become the second largest operation in the discount footwear field.

In expanding its share of this growing market in 1968, Meldisco further broadened its merchandise mix and put added emphasis on quality, variety and value in appealing to the millions of young families who have become steady discount store shoppers. The Meldisco chain opened 62 leased units during 1968, and closed 4, bringing its total number of outlets to 272.

Concentrating on developing special lines of merchandise for different regions of the country, Meldisco increased its emphasis on the training of store-operating and merchandising specialists in the discount field. Over 200 trainees and assistant managers entered the Meldisco department manager training program in 1968.

Now truly national in character, Meldisco has units as far north as Burlington, Vermont; as far south as Ft. Lauderdale, Florida and Puerto Rico; and as far west as Escondido, California. Meldisco plans to open 70 to 80 new leased shoe departments across the country over the next 3 to 5 years.

To keep its outlets better supplied, replenish best-selling items faster and attain more rapid and accurate reporting of sales and inventory, Meldisco further improved its warehousing, traffic and information processing facilities and procedures during the year. In 1968 the new warehouse at Brockton, Massachusetts processed more than 20,000,000 pairs of footwear. Construction was begun on a 100,000 square foot addition to the Brockton warehouse with a scheduled completion date of March 1969.

SHOE CASHIER
Rugged Action
2.97
1.84
$3.97

The Best for Least for ALL the Family

MELDISCO
9.97

Melville Manufacturing . . . The Art and Craft of Footwear

Adaptability to change, operational flexibility, and a continuing emphasis on new ideas make the Melville Manufacturing Division particularly suited to meeting the requirements of specialty merchandising.

Turning ideas into leather, plastic, cloth, and other materials Melville uses in the wide variety of footwear it produces, requires a combination of creativity and technical and practical skills that results in the production of footwear marked by both quality and style.

The close relationship the manufacturing division enjoys with the retailing and marketing operations of Thom McAn, Miles and Meldisco, gives it an unusual degree of sensitivity to consumer trends. This year the division accomplished a rapid change-over to the production of broader lasts, attractive ornamentations and antiqued leathers.

In regard to both women's and children's footwear, Melville's manufacturing division cooperated with Thom McAn in conducting a merchandise-testing program which has already led to the development of new specifications upgrading the product quality in the Thom McAn women's and children's lines.

New factory quality control programs, the increased use of automatic equipment and computers, and the further utilization of such prefabricated components as unit soles and heels during 1968 resulted in a better product and more efficient operations.

The Melville Manufacturing Division includes the 15 factories of the J. F. McElwain Company, the Blue Ridge Shoe Company, the Del Mar Shoe Company of Puerto Rico and the Spanish company, Calzados Manuel Reig, S.A. The Division opened two new factories in 1968. They were Del Mar's new plant at Isabela, Puerto Rico, where men's and women's handsewn shoes are produced, and the new Blue Ridge Shoe Company plant at Tifton, Georgia which will be devoted to the production of male footwear using all synthetic materials.

Although still relatively small, the production of women's and girls' footwear doubled in 1968 with further increases planned for 1969.

Foxwood...

The acquisition of Foxwood Casuals in 1968 extended the Melville pattern of specialty merchandising to the women's sportswear field. The 7-year-old Foxwood chain has 16 specialty stores in Western Pennsylvania, Ohio, Indiana and New York.

With its line of smartly styled casual clothes, handbags and accessories at reasonable prices, its rustic design motif and antique-style furnishings, Foxwood has become a favorite shopping place for sophisticated young suburban women.

The combination of Melville's capabilities as a national retailer and the proved Foxwood formula for selling casual sportswear promises to result in a steadily increasing number of Foxwood specialty shops on a national basis.

Exciting Specialty Apparel Shops the Young Can Call Their "Own"

Chess King...

The fast-growing Chess King apparel chain represents Melville's first expansion outside of the footwear business. Appealing primarily to the 12-20 year-old male, Chess King is exclusively the young male's "own" shop in its merchandise lines and merchandising techniques.

To attract the heavy teenage traffic in suburban shopping centers, Chess King stores feature colorful, modern décor, as well as stages and runways used for appearances by local rock groups and show business personalities.

The first Chess King store was opened in Dedham, Massachusetts in March; and five other stores were opened during the remainder of the year. Some 10-15 more Chess King stores are planned for 1969.

Financial Review

Earnings

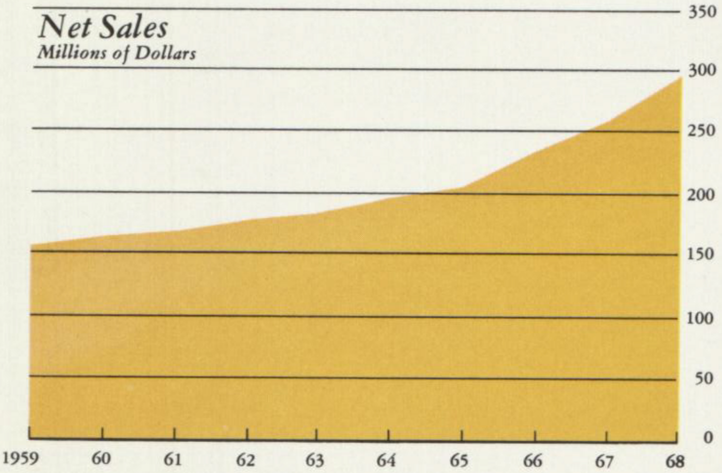
The $16,227,503 consolidated net earnings for the year 1968, a new record, increased 12.9% over the $14,370,223 earned in 1967. Earnings per common share for 1968 amounted to $2.89 as compared to $2.54 for the previous year, or an increase of 13.8%. Excluding the 10% Federal surtax, earnings per common share would be $3.07, or a 20.9% increase over the $2.54 for 1967.

Sales

Consolidated net sales for 1968 were also the highest of any year of the Company, reaching $292,971,938, a 13.2% increase over the $258,752,353 for the year 1967.

Dividends

The quarterly dividend on common stock was increased to $.32½ per share in January 1969 from $.27½ per share paid in 1968. The dividend on an annual rate amounts to $1.30 per share compared to $1.10 per share paid in 1968, an increase of 18.2%.

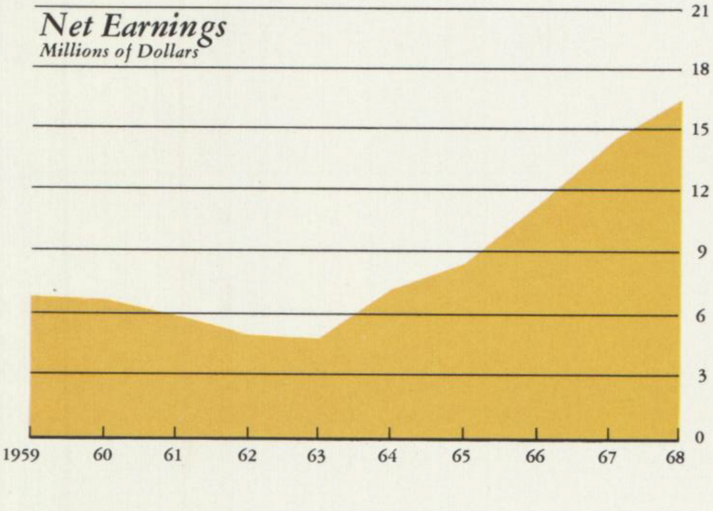


Property, Plant and Equipment

Capital expenditures amounted to $8,840,678 for the year 1968, as compared to $6,409,479 for the previous year, an increase of $2,431,199. Depreciation charged for the year 1968 amounted to $3,824,078 as compared to $3,455,002 in 1967.

Capital Stock

The stockholders approved on April 9, 1968 a split of the common stock on a two-for-one basis and an increase of the authorized common shares from 3,500,000 to 10,000,000 shares.



Distribution of Sales Revenue

	1968	1967
Received from the sale of products	$292,971,938	$258,752,353
Paid for materials, merchandise and all expenses, exclusive of taxes and other amounts paid to or for the benefit of employees	193,668,732	171,783,246
Remainder	99,303,206	86,969,107
This was divided as follows:		
Wages and compensation	64,951,698	57,279,005
Taxes	18,124,005	15,319,879
Paid to shareholders or retained in the business	16,227,503	14,370,223

In 1968, after payment for materials, merchandise, taxes and other necessary expenses, 80% of the balance went to 10,800 employees and 20% was paid to shareholders or retained in the business.

Statement of Consolidated Financial Condition

as of December 31, 1968 and 1967

Assets	1968	1967
Current assets:		
Cash	$ 18,011,946	$23,864,263
Accounts receivable, less provision for losses	6,051,033	4,547,924
Inventories—at lower of cost (13% valued at lifo) or market, principally by the retail method	58,744,980	47,269,022
Prepaid expenses	2,635,858	1,670,515
Total current assets	85,443,817	77,351,724
Property, plant, equipment and leasehold improvements, at cost:		
Land	2,207,021	1,298,198
Buildings	6,841,653	6,618,604
Machinery and equipment	5,677,348	5,149,609
Store and office fixtures, improvements to leased properties and miscellaneous equipment	48,556,545	44,384,228
	63,282,567	57,450,639
Less:		
Accumulated depreciation and amortization	37,891,181	36,557,588
Net property, plant, equipment and leasehold improvements	25,391,386	20,893,051
Unamortized debt discount and expense	168,804	183,480
	$111,004,007	$98,428,255

See accompanying notes to financial statements.

Liabilities	1968	1967
Current liabilities:		
Accounts payable and accrued expenses	$ 23,072,141	$18,527,895
Federal income taxes	6,975,492	6,897,006
Current installments on long-term debt	268,000	694,000
Total current liabilities	30,315,633	26,118,901
Long-term debt:		
4⅞% Debentures, due 1980 (annual sinking fund requirement $600,000)	7,800,000	8,400,000
3½% Promissory Note, due 1984, payable in quarterly installments	1,874,000	1,971,000
	9,674,000	10,371,000
Deferred credit (note 1)	1,064,115	1,206,471
Deferred Federal income taxes (note 2)	569,319	483,571
Lease obligations for closed stores	1,728,675	1,950,212
Shareholders' Equity		
Capital Stock (notes 3 and 4):		
Preferred stock, Series B, $4.00 dividend	10,514,600	11,841,900
Common stock	15,496,810	12,284,194
	26,011,410	24,126,094
Retained earnings	45,184,181	38,293,398
	71,195,591	62,419,492
Less cost of common and preferred shares held in treasury	3,543,326	4,121,392
	67,652,265	58,298,100
	$111,004,007	$98,428,255

Commitments (Note 5)

Statement of Consolidated Earnings

Years ended December 31, 1968 and 1967

	1968	1967
Net sales	$292,971,938	$258,752,353
Cost of goods sold, buying and warehousing costs	166,463,893	149,051,043
	126,508,045	109,701,310
Store operating, selling, general and administrative expenses	94,747,265	82,503,325
Depreciation and amortization	3,824,078	3,455,002
Interest charges	709,398	583,966
	99,280,741	86,542,293
	27,227,304	23,159,017
Other Income—net	145,199	249,206
Earnings before Federal income taxes	27,372,503	23,408,223
Provision for Federal income taxes (note 2)	11,145,000	9,038,000
Net earnings	$ 16,227,503	$ 14,370,223
Net earnings per share—common stock	$ 2.89	$ 2.54

Statement of Consolidated Retained Earnings

Years ended December 31, 1968 and 1967

	1968	1967
Retained earnings at beginning of year	$ 38,293,398	$ 28,981,895
Add: Net earnings for year	16,227,503	14,370,223
Retained earnings of company acquired (note 3)	58,916	—
	54,579,817	43,352,118
Deduct:		
Cash dividends paid:		
Preferred stock, Series B, $4.00 a share	408,944	439,438
Common stock, $1.10 a share; 1967, $.80 a share	6,006,962	4,393,102
Transfer to common stock account of an amount equal to $1 par value per share to give effect to two-for-one common stock split	2,790,458	—
Excess of cost over proceeds from sales of treasury stock under qualified stock option plan	189,272	226,180
	9,395,636	5,058,720
Retained earnings at end of year	$ 45,184,181	$ 38,293,398

See accompanying notes to financial statements.

Notes to Financial Statements

1. *Retirement Plans*

The company's provision under pension plans aggregated $852,475 for the year; such amount includes amortization over a thirty-year period of prior service costs, less amortization in annual installments to 1978 of a deferred credit of $1,064,115 representing the amount provided for pensions prior to adoption of funding for all plans.

The total of pension funds and amounts accrued for pensions was in excess of the actuarially computed value of vested benefits as of December 31, 1968.

2. *Deferred Federal Income Taxes*

Certain charges to income differ in amount from those recorded in tax returns. These differences arise from (a) use of the straight-line method of depreciation as contrasted with use of an accelerated method for tax purposes and (b) accrual of lease obligations to end of lease terms of closed stores which for tax purposes are deducted as paid. The provision for Federal income taxes charged to earnings includes the net tax effect of such differences which approximated $75,000 (charge) in 1968 and $310,000 (credit) in 1967. The cumulative net deferred Federal income taxes resulting from such differences are attributable to accelerated depreciation, $1,482,060 (deferred credit) and accrual of lease obligations on closed stores, $912,741 (deferred charge).

3. *Capital Stock*

Authorized preferred stock consists of 208,496 shares of cumulative preferred stock of $100 par value, issuable in series. During the year, 6,390 shares of Series B cumulative preferred stocks were purchased for $461,027 for sinking fund purposes. Of the preferred shares held in treasury, 13,273 shares were cancelled and eliminated from authorized shares during 1968, reducing treasury shares to 4,450 at a cost of $321,481. Accordingly, at December 31, 1968, there were 105,146 shares of Series B cumulative preferred stock authorized and issued; such shares are redeemable at the option of the company at par value.

In April 1968 stockholders approved a two-for-one split and an increase in the authorized common shares of $1 par value to 10,000,000, of which 5,597,266 shares have been issued, including 16,350 shares issued in connection with a business acquisition during the year which has been accounted for as a pooling of interests (inasmuch as there would be no change in net earnings per share, previously reported results of operations have not been restated). Per share earnings and dividends for 1967 have been restated to give effect to the split. During the year, 14,598 shares of common stock were acquired for $631,916.76 and 38,654 shares were delivered under the stock option plan, leaving 102,414 shares in treasury at a cost of $3,221,845.

4. *Stock Option and Stock Purchase Plans*

Under a stock option plan for key managerial employees, 305,416 shares of common stock were reserved at December 31, 1968. Transactions during the year are as follows:

	Number of Shares	Price Range Per Share
Options granted but not exercised at January 1, 1968	141,068	$9.9375-$34.1875
Add: Options granted	6,000	$58.75
	147,068	
Deduct: Options exercised	38,654	$9.9375-$17.25
Unexercised options at December 31, 1968	108,414	$9.9375-$58.75

At December 31, 1968 options for 73,382 shares were exercisable and 197,002 shares are available for grant under the plan.

In addition, key managerial employees, under an incentive stock purchase plan (approved by shareholders in April 1968) may purchase common shares within two years from date of offer at a minimum price equal to the higher of book value per share as of the fiscal year-end preceding the date of offer or 50% of fair market value at date of offer. No shares were offered for purchase under the plan during 1968. A maximum of 200,000 shares may be sold under the plan.

5. *Commitments*

Total minimum annual rentals (exclusive of amounts based on sales) payable under leases amounted to approximately $14,600,000 at December 31, 1968. Such leases will expire on various dates to 1993; however, it is anticipated that as leases expire they will be renewed or new leases will be executed. Total rent expense for the year amounted to approximately $20,900,000.

In January 1969, the company entered into a preliminary agreement for the acquisition of the businesses and substantially all the assets of Retail Store Management, Inc. and Mark Steven, Inc., in exchange for 150,000 shares of its common stock, plus a maximum of 85,000 additional shares contingent upon attainment of specified earnings. The closing date is dependent upon satisfaction of the conditions set forth in the preliminary agreement.

Accountants' Report

To the Board of Directors and Shareholders
MELVILLE SHOE CORPORATION:

We have examined the statement of consolidated financial condition of Melville Shoe Corporation and subsidiary companies as of December 31, 1968 and the related statements of consolidated earnings and consolidated retained earnings for the year then ended. Our examination which included the accompanying statement of consolidated source and application of funds for the year ended December 31, 1968 was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of consolidated financial condition and statements of consolidated earnings and consolidated retained earnings present fairly the financial position of Melville Shoe Corporation and subsidiary companies at December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion the accompanying statement of consolidated source and application of funds for the year ended December 31, 1968 presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants

New York, New York
February 25, 1969

Ten Year Financial Summary

	1968	1967	1966	1965	1964	1963
Results for the Year						
(000's omitted) Net Sales	$292,972	$258,752	$234,313	$203,545	$195,171	$182,403
Wages and Compensation	64,952	57,279	51,827	46,122	44,305	41,768
Taxes—All	18,124	15,320	11,797	9,866	10,062	8,192
Earnings Before Federal Income Taxes	27,373	23,408	17,633	13,668	12,337	8,462
Net Earnings	16,228	14,370	11,192	8,418	7,111	4,814
Dividends Paid	6,416	4,833	3,922	3,281	2,779	4,196
Per Share Results of Common Stock*						
Net Earnings	$ 2.89	$ 2.54	$ 1.94	$ 1.42	$ 1.18	$ .76
Dividends	1.10	.80	.62½	.50	.40	.65
Taxes—All	3.31	2.80	2.14	1.77	1.81	1.47
Book Value	10.46	8.68	7.24	6.12	5.17	4.39
End of Year Position						
(000's omitted) Current Assets	$ 85,444	$ 77,352	$ 67,275	$ 61,596	$ 58,702	$ 49,782
Current Liabilities	30,316	26,119	20,279	18,745	17,273	13,694
Current Ratio	2.82	2.96	3.32	3.30	3.40	3.64
Property, Plant and Equipment						
(000's omitted) At Cost	$ 63,283	$ 57,451	$ 53,316	$ 50,361	$ 47,167	$ 47,317
Net After Accumulated Depreciation	25,391	20,893	18,377	17,350	16,030	17,927
Capital Additions	8,841	6,409	4,945	4,971	2,046	2,356
Depreciation	3,824	3,455	3,292	3,148	3,272	3,308
Percent to Net Sales						
Earnings Before Federal Income Taxes	9.34%	9.05%	7.53%	6.72%	6.32%	4.64%
Net Earnings	5.54%	5.55%	4.78%	4.14%	3.64%	2.64%
Percent Net Earnings to Shareholders' Equity	27.84%	28.16%	24.41%	19.87%	18.52%	12.64%
Number of Stores	1,474	1,366	1,314	1,275	1,250	1,244

*Adjusted to reflect two-for-one stock split on April 10, 1968.

Melville Shoe Corporation
and subsidiary companies

1962	1961	1960	1959
$176,448	$165,867	$161,594	$151,710
41,648	39,619	40,029	36,458
8,617	8,839	8,808	8,564
9,150	11,091	11,917	12,246
4,987	5,988	6,608	6,743
5,050	5,065	4,870	4,416
$ .79	$ .97	$ 1.08	$ 1.09
.80	.80	.76¼	.67½
1.55	1.59	1.58	1.54
4.28	4.09	3.89	3.69
$ 50,247	$ 50,432	$ 50,114	$ 38,287
15,529	14,495	13,496	13,484
3.24	3.48	3.71	2.84
$ 47,100	$ 44,695	$ 41,600	$ 38,442
19,441	19,637	18,230	16,539
3,328	4,610	4,409	3,688
3,346	3,073	2,714	2,528
5.19%	6.69%	7.37%	8.07%
2.83%	3.61%	4.09%	4.44%
13.37%	16.01%	18.07%	19.02%
1,249	1,212	1,156	1,110

Statement of Consolidated Source and Application of Funds

Years ended December 31, 1968 and 1967

Source of Funds:	1968	1967
Net Income	$16,227,503	$14,370,223
Depreciation	3,824,078	3,455,002
Increase (decrease) in deferred Federal income taxes	85,748	(185,443)
Proceeds from sale of treasury stock under stock option plan	446,072	337,745
Disposition of property, plant and equipment	518,265	438,244
Increase (decrease) in provision for lease obligations on closed stores	(221,537)	490,126
Other—net	61,759	(116,017)
	20,941,888	18,789,880

Application of Funds:		
Additions to property, plant and equipment	8,840,678	6,409,479
Reduction in long-term debt	697,000	694,000
Purchase of treasury stock—common	631,916	2,236,881
Purchase of treasury stock—preferred	461,027	379,752
Cash dividends on preferred and common stock	6,415,906	4,832,540
	17,046,527	14,552,652
Net increase in working capital	$ 3,895,361	$ 4,237,228

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25 West 43rd Street, New York, N. Y. 10036

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